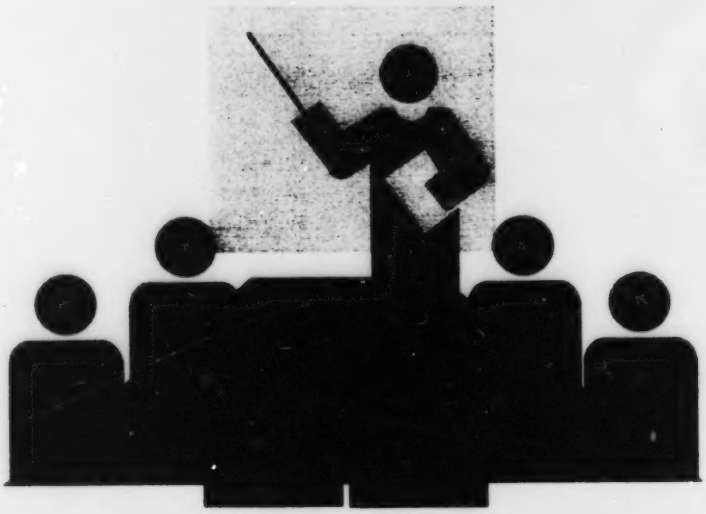
Saskatchewan Municipal Affairs, Culture and Housing
Community Support Services Branch
Advisory (Management) Services Unit

A Guide to Municipal Property Tax Tools



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Introduction

This manual is intended as a guide for elected officials and administrators in their efforts to provide sound tax policy for their communities.

Elected officials are called on to be visionaries – to see the future with the present in mind. Their responsibilities include consulting with the public, setting long-term goals, and formulating policies. Their role is to **govern** in the true sense of the word.

Administrators/clerks are called on to be policy advisors and to implement the policies set by their councils. They must be prepared to analyse information for their councils and recommend the best option for the community. Their role is to **manage** the day-to-day affairs of the community.

The relationship between council members and administrators must be one of mutual respect. Council and staff need to develop a partnership where all parties work together as one unit with strong, effective lines of communication. The relationship between council and administration is the foundation of responsible government.

Goals & Objectives

To be effective, any decision making process should be objective driven. In other words, in making a decision council could ask, "What do we want to achieve?" or "How does this fit into the big picture?"

Council considers and decides on the services that the community needs and/or wants. Budget deliberations are crucial - council sets the direction of the community by prioritizing its capital projects, its infrastructure maintenance program, and its commitment to the health, safety and welfare of its residents.

The next consideration could be, "How much will this cost the community?" "How much revenue is required to meet the goals and objectives of council?" "How do we, as council, distribute the tax incidence fairly and equitably?"

Council establishes goals and objectives for its tax policy. For example, after examining the relative tax shifts that would occur without using tax tools, council may choose to adopt an objective of a maximum 10% tax increase or decrease for every property owner in the municipality. With this goal established, decisions may then be made to accomplish the goal by using the appropriate tax tool(s).

Council may decide to maintain the tax allocations that result from revaluation. In this case, there is no need for tax tools to accomplish council's tax policy goals.

However, each option could be examined and its impact determined in order for council to decide if the option is necessary or desirable. Each decision made will have implications for any other tax tool chosen. For example, putting a minimum tax in place may result in a lower uniform mill rate.

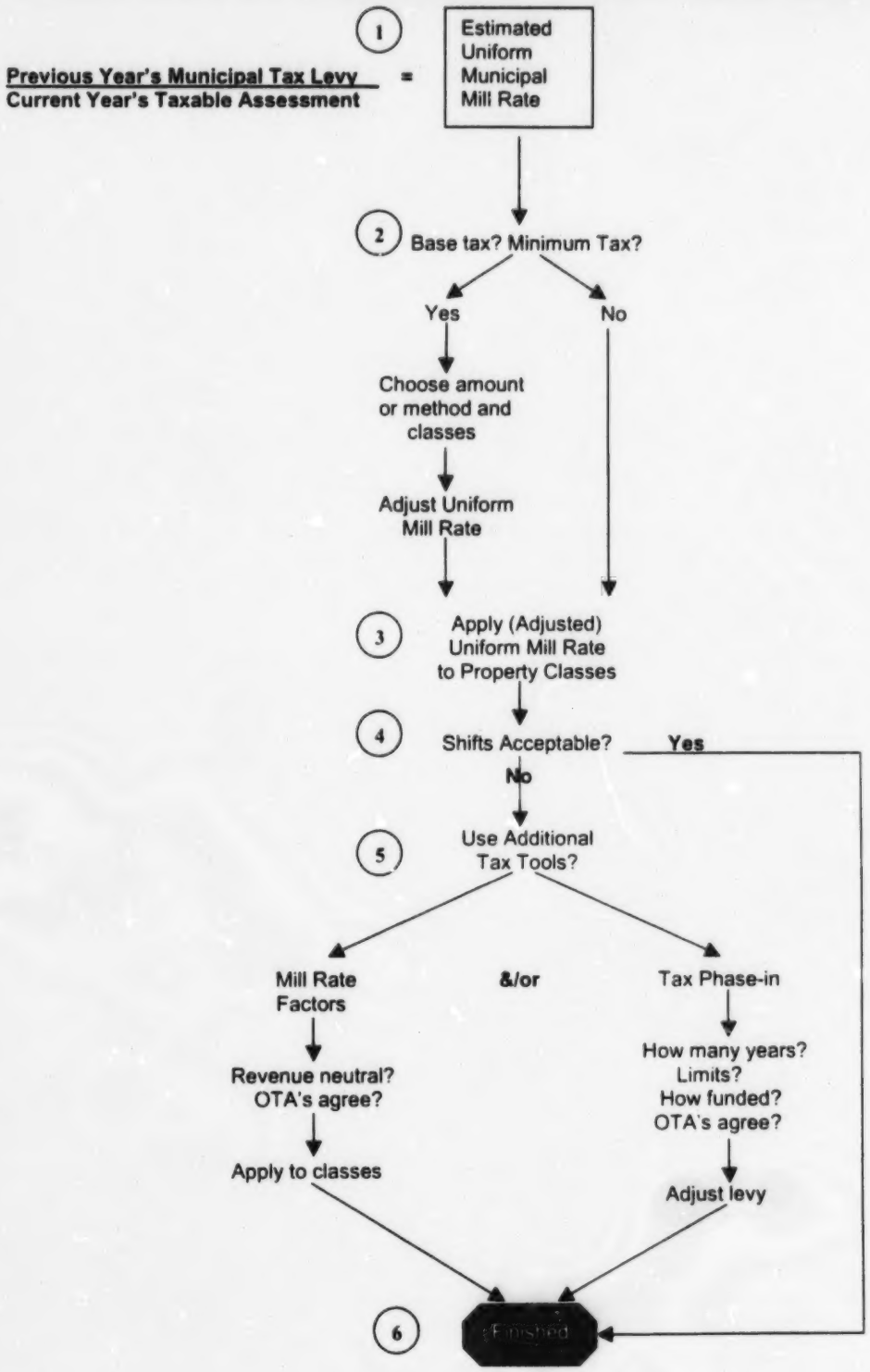
The more tax tools that are chosen, the greater the implications and the more complex the use of tax tools becomes, both in calculating property taxes and in explaining the rationale behind the policy to taxpayers.

No matter which tax policy decisions are made, it may be a good idea to communicate with neighbouring municipalities and other taxing authorities, as well as with your public. Councils and administrators should be able to clearly explain the use of any tax tools to their taxpayers.

The Decision Tree

The "Decision Tree" (see next page) is a graphical representation of a suggested process to help municipalities make various decisions respecting local tax policy. Tax tools provide options to councils in managing the changes in taxation that result from reassessment. These tools relate to tax allocation, not how much total tax revenue is needed. Budget-driven tax increases (ie. new expenditures) may be reviewed separately from tax allocation decisions.

Brief summaries of the steps in the "Decision Tree" follow, describing a decision making process that could be followed by councils in choosing tax tools. Detailed information follows the summarized process, later in the guide. For specifics in legislation, refer to the relevant sections of the applicable municipal Act and Regulations. When drafting bylaws, the Municipal Bylaw Guide may be consulted to ensure all components are included. The process the municipality decides to follow may differ from that presented in this guide, as councils need to take into account local considerations.


1
Previous Year's Municipal Tax Levy / Current Year's Taxable Assessment =
Estimated Uniform Municipal Mill Rate
2
Base tax? Minimum Tax?
Yes
No
Choose amount or method and classes
Adjust Uniform Mill Rate
3
Apply (Adjusted) Uniform Mill Rate to Property Classes
4
Shifts Acceptable?
Yes
No
5
Use Additional Tax Tools?
Mill Rate Factors
&/or
Tax Phase-in
Revenue neutral? OTA's agree?
How many years? Limits? How funded? OTA's agree?
Apply to classes
Adjust levy
6
Finished

Step 1 - Determine the Municipal Mill Rate

A good starting point is to determine the uniform municipal mill rate. Since January or February may be too early in the year to arrive at the mill rate the usual way (i.e., budget indicates taxes required; taxes required divided by taxable assessment equals mill rate), the mill rate may be estimated based on the previous year's municipal tax levy. The assumption here is that the current year's levy will be *revenue neutral*. The total previous year's municipal taxes levied divided by the current year (unconfirmed) taxable assessment equals the estimated uniform municipal mill rate. Keep in mind that allowances for changes in other sources of revenue in the current year may also need to be made. When the current year budget is finalized, the actual uniform mill rate may be determined and used throughout the tax policy formulation process.

Step 2 - Minimum Tax/Base Tax

Councils have the authority to establish a minimum tax or a base tax, by bylaw, for the municipal portion of the levy. Other taxing authorities (OTAs) have no access to the minimum tax or the base tax. If council chooses not to use one of these options, proceed to Step 3. If council decides to have a minimum tax or a base tax, it must then decide the set amount (for base or minimum) or method of calculation (for minimum tax, if apolicable) and the property class or classes to which it will apply.

A minimum tax or a base tax may yield more municipal tax revenue. Council could use any additional revenue to lower the uniform mill rate or a mill rate factor(s). The additional revenue could also be used to fund a tax phase-in plan. It may also be used to offset tax abatements, or the additional taxes may simply go into general revenues for unspecified purposes.

Step 3 – Apply (Adjusted) Uniform Mill rate to Property Classes

After deciding whether or not a minimum tax or base tax is to be used, council could look at the shifts in taxation levels between property classes compared to the previous year. If these shifts are acceptable, council is finished selecting its tax policy tools (go to Step 6). If the shifts are not acceptable, council could look at the remaining tax tool options to determine which best adjusts the tax shifts between property classes to an appropriate level.

Step 4 – Acceptability of Tax Shifts

With the minimum tax and base tax decisions dealt with, the estimated uniform mill rate should then be applied to all properties. The shifts in taxes, if any, that occur between the four local property classes should be examined to determine whether the size and incidence of the shifts is acceptable. If the shifts are acceptable based on the goals and objectives that council has previously established, the process stops (except to communicate the choices council has made to the public). If the resulting shifts are not acceptable to council, it could use mill rate factors **and/or** tax phase-in to manage the shifts among the four local property classes.

Step 5 – Mill Rate Factors &/or Tax Phase-in

Mill Rate Factors

Different mill rate factors may be applied to the uniform mill rate to effectively change the mill rate for one, a combination of, or all local property tax classes to manage tax incidence among the property tax classes. Factors may be used on a revenue neutral basis (total amount of taxes raised does not change compared to the previous year, but the distribution of the taxes among the property classes changes). Factors may also be used to generate more taxes from a certain property class or classes (e.g., a higher mill rate factor could be applied to the commercial property class to generate extra revenue due to the loss of the business tax.

Municipalities that intend to use mill rate factors must notify the other taxing authorities (OTA) of this decision. This gives the OTA the opportunity to agree to the application of the municipality's mill rate factors on the OTA uniform mill rate. If the OTA chooses not to participate in the use of this tax tool, the mill rate factors will apply only to municipal taxes.

Tax Phase-in

Councils may decide to phase-in tax increases or decreases that result from reassessment over a maximum period of six years. In making this decision, council needs to determine the extent (or limits) of increases or decreases that will be allowed, in terms of dollar amounts or percentages. Council must fund its tax phase-in plan by using one of three methods provided in legislation: offset increases with decreases in taxation; impose a levy on all or certain classes of property; or, transfer from surplus or reserves. Funding for each year of the phase-in plan must be provided in that year.

The municipal tax phase-in plan may be extended, by agreement, to the taxes of another taxing authority. If the OTA does not wish to participate, the phase-in plan applies only to the municipal taxes. The levy (or levies, if OTAs agree to phase-in) need to be adjusted to reflect the phase-in plan.

Step 6 - Finish

At this point, if the goals and objectives council previously established have been met, the tax policy *formulation* process ends. The *implementation* process should follow, beginning with communicating council's tax policy decisions to the public (newspaper, mail-out(s), radio, etc.). If council's initial goals have not been achieved, other measures must be examined (e.g., individual property tax abatements or exemptions) or the goals themselves may need to be reexamined.

Base Tax

(Section 339.3 RMA, Section 279.5 UMA)

Base tax means setting a base or **set amount** of property tax, *regardless* of the assessed value of a property. This tax tool is set by bylaw and applies only to municipal taxes.

Council must set a specific amount as the base tax. The base tax may be applied to land, improvements, or land with improvements within each of the four local property classes. A different amount of base tax may be set for different classes of lands and/or improvements. A levy equal to the assessed value of the property multiplied by the mill rate is **added** to the base amount of tax.

Note for rural municipalities: The base tax cannot be applied to improvements that qualify for a tax exemption under Clause 331 (1)(q) of *The Rural Municipality Act, 1989*.

For all municipalities, land or improvements receiving a statutory tax exemption are not subject to base tax.

Possible base tax formulation process (use if <u>ONLY</u> base tax policy/policies will be used):

1. Begin with total tax revenues required for the current year (based on previous year's total tax levy or current year preliminary budget). Calculate the starting uniform mill rate, for reference purposes.

2. Select a base tax.

3. Take the number of properties affected by the selected base tax and multiply by the base tax amount.

4. Subtract the amount raised by the base tax (or sum of the base tax revenues, if more than one base tax is being implemented) from the total tax revenue required. The difference is the amount that needs to be raised on the **total taxable assessment through a uniform mill rate**.

   Repeat Steps 2, 3, and 4 if multiple base tax policies are to be implemented.

5. Take the amount to be raised in Step 4 and divide it by the total taxable assessment. This results in the municipality's uniform mill rate.

6. A tax revenue summary may be prepared to illustrate the effects of council's tax policy decision. Process complete!

Base Tax

Example:

	Taxable Assessment Land	Taxable Assessment Improvement(s)	Total Taxable Assessment
Residential 1	5,000.	*0.	5,000.
Residential 2	5,000.	10,000.	15,000.
Residential 3	5,000.	20,000.	25,000.
Residential 4	10,000.	35,000.	45,000.
Residential 5	15,000.	70,000.	85,000.
Residential 6	15,000.	110,000.	125,000.
Total Residential	**55,000.**	**245,000.**	**300,000.**
Commercial 1	30,000.	0.	30,000.
Commercial 2	30,000.	50,000.	80,000.
Commercial 3	40,000.	110,000.	150,000.
Commercial 4	50,000.	150,000.	200,000.
Commercial 5	50,000.	190,000.	240,000.
Total Commercial	**200,000.**	**500,000.**	**700,000.**
Total Taxable Assessment	**255,000.**	**745,000.**	**1,000,000.**

*** In this example, base tax applies only when there is an assessed value for residential land and improvements on the same parcel.**

Step 1: Total tax revenues required for current year: $10,000.

Step 2: Council establishes a base tax in the amount of $500. on residential *land with improvements*.

Step 3: Five (5) properties listed above have residential land with improvements that would be affected by the base tax. The base tax would raise $2,500. (5 x $500.).

Step 4: Subtract the base tax revenue from the total tax revenue required. $10,000. - $2,500 = $7,500.

Step 5: Take the amount required from Step 4 and divide it by the total taxable assessment $7,500./1,000,000. x 1,000 = 7.5 mills

continued on next page

Base Tax

Step 6: Tax revenue summary:

	Taxable Assessment Land	Taxable Assessment Improvement(s)	Total Taxable Assessment	Base Tax	Mill Rate Calculation (mill rate x taxable assessment)	Total Tax Levy
Residential 1	5,000.	*0.	5,000.	------	$37.50	$37.50
Residential 2	5,000.	10,000.	15,000.	$500.	112.50	612.50
Residential 3	5,000.	20,000.	25,000.	500.	187.50	687.50
Residential 4	10,000.	35,000.	45,000.	500.	337.50	837.50
Residential 5	15,000.	70,000.	85,000.	500.	637.50	1137.50
Residential 6	15,000.	110,000.	125,000.	500.	937.50	1437.50
Total Residential	**55,000.**	**245,000.**	**300,000.**	**$2,500.**	**$2,250.**	**$4,750.**
Commercial 1	30,000.	0.	30,000.	------	$225.	$225.
Commercial 2	30,000.	50,000.	80,000.	------	600.	600.
Commercial 3	40,000.	110,000.	150,000.	------	1,125.	1,125.
Commercial 4	50,000.	150,000.	200,000.	------	1,500.	1,500.
Commercial 5	50,000.	190,000.	240,000.	------	1,800.	1,800.
Total Commercial	**200,000.**	**500,000.**	**700,000.**	------	**$5,250.**	**$5,250.**
Total Taxable Assessment	**255,000.**	**745,000.**	**1,000,000.**	**$2,500.**	**$7,500.**	**$10,000.**

*** In this example, base tax applies only when there is an assessed value for residential land and improvements on the same parcel.**

Process complete!

Minimum Tax

(Section 339.2 RMA, Section 279.4 UMA)

Minimum taxes are set by bylaw and apply only to municipal taxes.

Council chooses either a specific minimum amount of tax or a method of calculating the minimum amount of tax (such as a rate per front foot for each lot or a rate per acre of land). A minimum tax may be established for land only, improvements only or land and improvements within each of the four local property classes. Council may apply a different amount of minimum tax or provide for different methods of calculating minimum tax for different classes of land or improvements.

Taxable assessment x municipal mill rate = municipal property tax:

- if the calculated municipal property tax is less than or equal to the minimum tax set by council, then the minimum tax would apply;
- if the calculated municipal property tax is greater than the minimum tax set by council, then the greater amount applies.

For all municipalities, land or improvements receiving a statutory tax exemption are not subject to minimum tax. For example, in **rural municipalities**, minimum tax cannot be applied to improvements that have received a tax exemption under Clause 331 (1)(q) of *The Rural Municipality Act, 1989*.

These examples are provided for illustration purposes only; local considerations and methods of calculating minimum tax will vary.

Possible minimum tax formulation process (use if <u>ONLY</u> minimum tax policy/policies will be used):

1. Begin with total tax revenues required for the current year divided by total taxable assessment for the current year to establish the starting mill rate. Tax revenues may be estimated from the prior year's total tax levy or from this year's preliminary budget.

2. Select a minimum tax.

3. Take the minimum tax divided by the starting mill rate to determine the level of assessment that will pay the minimum tax. Taxable assessments equal to or less than this figure will be subject to the minimum tax.

4. Take the number of properties affected by the selected minimum tax and multiply by that minimum tax amount to determine the tax revenue to be raised through that minimum tax.

5. Subtract the amount raised by the minimum tax from the total tax revenue required. This result is the total tax revenue required to be raised on **all remaining properties** that are not affected by the minimum tax.

   Repeat Steps 2 through 5 if multiple minimum tax policies will be implemented.

6. Determine the taxable assessment remaining after the assessments of those properties affected by the minimum tax have been subtracted.

7. Divide the remaining tax revenue to be raised by the remaining taxable assessment. This result is the **new mill rate**.

8. Before completing the municipal minimum tax policy, there is another consideration: because the starting mill rate used has changed, the effect on the minimum tax policy/policies must be verified. Divide the minimum tax by the new mill rate to determine the new assessment value threshold for the minimum tax. Some properties that were not previously affected by the minimum tax may now be subject to the minimum tax policy. If there are any properties affected, there will be a "loss" in calculated revenue equal to the tax that would have been (based on the starting mill rate) less the minimum tax amount. Adding up the affected properties' "losses" will allow council to determine whether or not the total tax revenue required needs to be adjusted, the mill rate needs adjustment, etc.

   If the change is minimal, changing the total tax revenue required may be a quick way to complete the tax policy formulation process. In many cases, there will not be *any* properties affected. If this is the case, no change to the policy is required. If multiple minimum tax policies are in use, the same verification process must be used for each minimum tax policy.

9. A tax revenue summary may be prepared to illustrate the effects of council's tax policy. Process complete!

Minimum Tax

Example:

	Taxable Assessment Land	Taxable Assessment Improvement(s)	Total Taxable Assessment
Residential 1	5,000.	*0.	5,000.
Residential 2	5,000.	10,000.	15,000.
Residential 3	5,000.	20,000.	25,000.
Residential 4	10,000.	35,000.	45,000.
Residential 5	15,000.	70,000.	85,000.
Residential 6	15,000.	110,000.	125,000.
Total Residential	**55,000.**	**245,000.**	**300,000.**
Commercial 1	30,000.	0.	30,000.
Commercial 2	30,000.	50,000.	80,000.
Commercial 3	40,000.	110,000.	150,000.
Commercial 4	50,000.	150,000.	200,000.
Commercial 5	50,000.	190,000.	240,000.
Total Commercial	**200,000.**	**500,000.**	**700,000.**
Total Taxable Assessment	**255,000.**	**745,000.**	**1,000,000.**

*** In this example, minimum tax applies only when there is an assessed value for residential land <u>and</u> improvements on the same parcel.**

Step 1: Determine a starting mill rate. Total tax revenues required for current year divided by the current year total taxable assessment. $10,000./1,000,000. x 1,000 = 10 mills

Step 2: Council would like to establish a minimum tax of $500. on residential *land with improvements*.

Step 3: Take the minimum tax divided by the starting mill rate to determine the assessments that will be affected by the minimum tax. $500./10 x 1,000. = $50,000.

Step 4: Check the list of properties to see which will be affected (those residential properties with a taxable assessment of land with improvements less than or equal to $50,000.). In this example, there are three. Multiply the number of affected properties by the minimum tax. 3 x $500. = $1,500. This amount will be raised through the minimum tax.

Step 5: Subtract the amount that will be raised through a minimum tax from the total tax revenue required. $10,000. - $1,500. = $8,500. This is the amount to be raised on the taxable assessment remaining after taking off the properties affected by the minimum tax.

Step 6: Determine the taxable assessment remaining after the assessments of those properties affected by the minimum tax have been subtracted. $1,000,000. – 85,000. = 915,000.

Minimum Tax

Step 7: Divide the remaining tax revenue to be raised by the remaining taxable assessment. $8,500./915,000. x 1,000. = 9.290. This is the new mill rate.

Step 8: Check to see if any properties are affected by the new mill rate when compared to the minimum tax. Divide the minimum tax by the new mill rate. $500./9.290 x 1,000. = 53,821. Residential lands with improvements assessed between $50,000. and $53, 821. will be affected by the new mill rate. In this example, no properties fall in that range.

Step 9: The tax revenue breakdown is as follows:

	Taxable Assessment Land	Taxable Assessment Improvement(s)	Total Taxable Assessment	Mill Rate Calculation (mill rate x taxable assessment)	Minimum Tax	Total Tax Levy
Residential 1	5,000.	*0.	5,000.	$46.45	------	$46.45
Residential 2	5,000.	10,000.	15,000.	139.35	$500.	500.00
Residential 3	5,000.	20,000.	25,000.	232.25	500.	500.00
Residential 4	10,000.	35,000.	45,000.	418.05	500.	500.00
Residential 5	15,000.	70,000.	85,000.	789.65		789.65
Residential 6	15,000.	110,000.	125,000.	1161.25		1161.25
Total Residential	**55,000.**	**245,000.**	**300,000.**			**$3,497.35**
Commercial 1	30,000.	0.	30,000.	$278.70	------	$278.70
Commercial 2	30,000.	50,000.	80,000.	743.20	------	743.20
Commercial 3	40,000.	110,000.	150,000.	1,393.50	------	1393.50
Commercial 4	50,000.	150,000.	200,000.	1,858.00	------	1,858.00
Commercial 5	50,000.	190,000.	240,000.	2,229.60	------	2,229.60
Total Commercial	**200,000.**	**500,000.**	**700,000.**			**$6,503.00**
Total **Taxable Assessment**	**255,000.**	**745,000.**	**1,000,000.**			**$10,000.35**

*** In this example, minimum tax applies only when there is an assessed value for residential land and improvements on the same parcel.**

Process complete!

Mill Rate Factors

(Section 330.3 RMA, Section 279.3 UMA)

Mill rate factors allow municipalities to vary the mill rate applied to the taxable assessment among the four local property classes ***(Agricultural, Residential, Seasonal Residential and Commercial and Industrial)***. To exercise this option, a uniform mill rate is set by Council and then multiplied by a mill rate factor to determine the factored mill rate applicable to each property class.

Mill rate factors can be used to:

- manage the tax shifts among the local property classes;
- control the distribution of taxes among property classes *within* the municipality, but not *between* municipalities;
- adjust the distribution of the school levy among the local property classes, but cannot change the total amount of school tax to be paid by all properties within the municipality; and/or
- increase tax revenue on commercial and industrial properties, similar to what the business tax did in the past.

The mill rate factors must be set by bylaw and apply only to municipal taxes. However, the mill rate factors could be extended to other taxing authorities by agreement. If this is done, Council must adjust the other taxing authority's mill rate so that the same total amount of tax is levied for that authority after applying the mill rate factors. To achieve this, Council may increase or decrease the other taxing authority's mill rate.

All school divisions within an urban municipality must agree to apply the same mill rate factors. Otherwise, mill rate factors would not be available to any school divisions within that municipality. This does not apply in a rural municipality.

A council must notify the other taxing authorities of its intention to set, repeal or vary mill rate factors on or before June 30 in the year before the mill rate factors, amendment or repeal is to take effect. The other taxing authorities that intend to enter into an agreement with the municipality regarding mill rate factors must advise the municipality on or before September 30 in the same year.

A council must amend or set the mill rate factors, where the other taxing authorities have agreed to use them, before March 1 in the year in which the factors are to apply. If other taxing authorities are **not** using the municipality's mill rate factors, this deadline does **not** apply.

Mill Rate Factors

The calculation of mill rate factors involves the following (assumes **only** mill rate factors will be used; no minimum tax, base tax, or phase-in):

1	Determine the previous year's tax revenues by property class as a percentage of the total tax revenues (this may be used to consider past tax policy or where council wishes to maintain the same percentages by property class and/or remain revenue neutral).	*previous year tax revenue for each local property class* / *previous year total tax revenue* *= previous year tax revenue percentage by property class*
2	Determine the current year uniform mill rate by establishing the amount of taxes required for the current year and dividing this amount by the total taxable assessment.	*taxes required for current year* / *current year taxable assessment* = *uniform mill rate*
3	Determine the current year tax revenue by property class.	uniform mill rate x taxable assessment for each property class = tax revenue per property class
4	Determine the current year tax revenues by property class as a percentage of the total tax revenues.	*current year tax revenue for each local property class* / *current year total tax revenue* *= current year tax revenue percentage by property class*
5	To calculate mill rate factors, divide the desired percentage for each property class by the actual current year percentage for that property class.	*desired percentage* / *current year actual percentage* = *mill rate factor (for that property class)*

	If the previous year's percentages are used as the desired percentage rates, the mill rate factors for each property class will result in the same percentages being paid by each property class as in the previous year. Council may determine its own percentages for the current year. Once determined, take the desired percentage for each property class and divide it by the actual percentage for each property class. The result is the mill rate factor for that property class.	
6	The mill rate factor is multiplied by the uniform mill rate to achieve the factored mill rate. The factored mill rate multiplied by the taxable assessment divided by 1,000 equals the property tax payable on that parcel.	**mill rate factor x uniform mill rate = factored mill rate** $\frac{\text{factored mill rate x taxable assessment}}{1000}$ **= property tax**

Note: *If the OTA decides to use the municipality's mill rate factors* ***and*** *the municipality has used mill rate factors in the previous year (****only*** *mill rate factors), combine the municipal and OTA tax revenues by property class in Step 1. This will determine the previous year's overall tax revenue percentages by property class (if council wishes to maintain the same percentages in the current year overall – municipal and OTA revenues combined). For the remaining steps. use only municipal figures. This is done for the* ***first time*** *an OTA wishes to use the municipal mill rate factors* ***and*** *the municipality used mill rate factors in the previous year.*

Example 1:

Council wishes to keep:
1) the municipality's tax revenue neutral (same total tax levy as previous year); **and**
2) the tax allocation between property classes at previous year levels.

Step 1: Previous year information

	Residential	Agricultural	Commercial	Total
Previous year municipal tax levy	$ 107,660	$ 60	$ 92,280	$ 200,000
% of total ***(a)***	***53.83%***	***.03%***	***46.14%***	***100%***

Step 2: Calculate uniform mill rate

Total tax revenue required				**$200,000**
	Residential	**Agricultural**	**Commercial**	**Total**
Total taxable assessment (Current year)	**6,513,000**	**6,000**	**3,481,000**	**10,000,000**
Uniform Mill Rate ($200,000/10,000,000)				**20**

Step 3: Current year tax revenue by property class

	Residential	Agricultural	Commercial	Total
Current year municipal tax levy	$ 130,260	$ 120	$ 69,620	$ 200,000

Step 4: Current year percentages by property class based on uniform mill rate

	Residential	Agricultural	Commercial	Total
% of total ***(b)***	***65.13%***	***.06%***	***34.81%***	***100%***

Step 5: Calculate mill rate factors for each property class

	Residential	Agricultural	Commercial
Mill Rate Factor (a)/(b)	**.827**	**.500**	**1.325**

Step 6: Calculate the factored mill rate

	Residential	Agricultural	Commercial
Factored Mill Rate *Mill Rate Factor x Uniform Mill Rate*	**16.54**	**10.00**	**26.50**

You may double-check that the totals reflect council's decision by calculating the tax revenue for each property class (taxable assessment x factored mill rate):

	Residential	Agricultural	Commercial	Total
Tax revenue	107,725.02	60	92,246.50	** 200,031.52
Percentages	53.85%	.03%	46.12%	100%

** Due to rounding of decimals at Step 5 and/or Step 6, the total tax levy may not be exactly the same as the previous year.

Also note that when the factored mill rates are applied to the *individual tax roll cards*, rounding of decimal numbers may result in the total levy being slightly different than the one you have calculated.

Example 2:

Council wishes to:
1) increase the total tax levy to $220,000. (versus $200,000. for the previous year); **and**
2) change the tax allocation between property classes to 60% Residential, .03% Agricultural, and 39.97% Commercial.

Step 1: Previous year information (for consideration only; not used in calculations here)

	Residential	Agricultural	Commercial	Total
Previous year municipal tax levy	$ 107,660	$ 60	$ 92,280	$ 200,000
% of total	***53.83%***	***.03%***	***46.14%***	***100%***

Step 2: Calculate uniform mill rate

Total tax revenue required				**$220,000**
	Residential	**Agricultural**	**Commercial**	**Total**
Total taxable assessment (Current year)	**6,513,000**	**6,000**	**3,481,000**	**10,000,000**
Uniform Mill Rate ($220,000/10,000,000)				**22**

Step 3: Current year tax revenue by property class

	Residential	Agricultural	Commercial	Total
Current year municipal tax levy	$ 143,286	$ 132	$ 76,582	$ 220,000

Step 4: Restate **desired** percentages for each property class:

	Residential	Agricultural	Commercial	Total
Desired % of total (a)	*60%*	*.03%*	*39.97%*	*100%*

Current year percentages by property class based on uniform mill rate

	Residential	Agricultural	Commercial	Total
% of total (b)	*65.13%*	*.06%*	*34.81%*	*100%*

Step 5: Calculate mill rate factors for each property class

	Residential	Agricultural	Commercial
Mill Rate Factor (a)/(b)	.921	.500	1.148

Step 6: Calculate the factored mill rate

Factored Mill Rate *Mill Rate Factor x Uniform Mill Rate*	20.262	11	25.256

You may double-check that the totals reflect council's decision by calculating the tax revenue for each property class (taxable assessment x factored mill rate):

	Residential	Agricultural	Commercial	Total
Tax revenue	131,966.40	66	87,916.14	** 219,948.54
Percentages	60%	.03%	39.97%	100%

** Due to rounding of decimals at Step 5 and/or Step 6, the total tax levy may not be exactly the same as the previous year.

Also note that when the factored mill rates are applied to the *individual tax roll cards*, rounding of decimal numbers may result in the total levy being slightly different than the one you have calculated.

The steps illustrated in these examples may be used whether council decides to have a revenue neutral tax levy or an increase or decrease in the tax levy versus the previous year.

Mill Rate Factors

To adjust the other taxing authority's mill rate to comply with clause 330.3(6)(b) RMA, and clause 279.3(7)(b) UMA (**only** where OTA has agreed to use the municipality's mill rate factors)(continued from Example 2):

1. Determine the amount of taxes that will be collected per property class using the uniform mill rate without mill rate factors. This will determine the amount of taxes the other taxing authority wants to collect from the municipality.

	Residential	**Agricultural**	**Commercial**	**Total**
Assessment	$ 6,513,000	$ 6,000	$ 3,481,000	$ 10,000,000
OTA Mill Rate	21	21	21	21
Tax Required to be Raised	$ 136,773	$ 126	$ 73,101	$ 210,000

2. Next apply the mill rate factors to the uniform mill rate and calculate the taxes per local property class. This will give an indication of the total amount of taxes collected after applying the mill rate factors.

	Residential	**Agricultural**	**Commercial**	**Total**
Assessment	$ 6,513,000	$ 6,000	$ 3,481,000	$ 10,000,000
Mill Rate	21	21	21	21
Tax Required to be Raised	$ 136,773	$ 126	$ 73,101	$ 210,000
Mill Rate Factors (by municipality)	.921	.500	1.148	
Factored Taxes	$ 125,967.93	$ 63	$ 83,919.95	$ 209,950.88

3. Subtract the factored taxes from the tax required to be raised. If there is a difference then you must adjust the other taxing authority's uniform mill rate to achieve the amount of taxes requested by the other taxing authority.

$ 210,000 - $ 209,950.88 = $ 49.12

4. To determine the adjustment to make to the uniform mill rate, divide the difference calculated in step three by the total taxable assessment of the municipality and multiply by 1000. Keep six decimal places, if applicable.

($ 49.12 / $ 10,000,000) x 1000 = 0.004912

5. Divide the total factored taxes by the required tax revenue. The quotient averages the mill rate factors across all property classes recognizing the percentages per property class. Essentially it is a weighted mill rate factor. Keep six decimal places, if applicable.

$ 209,950.88 / $ 210,000 = 0.999766

6. Divide the mill rate calculated in step four by the factor in step five. The result of this calculation is the amount you must adjust the other taxing authority's mill rate. Keep three decimal places.

0.004912 / 0.999766 = 0.005 mills
21 + 0.005 = 21.005 (Other taxing authority's adjusted mill rate)

	Residential	Agricultural	Commercial	Total
Assessment	$ 6,513,000	$ 6,000	$ 3,481,000	$ 10,000,000
Adjusted Mill Rate	21.005	21.005	21.005	21.005
Mill Rate Factors	.921	.500	1.148	
Factored Taxes	$ 125,997.92	$ 63.02	$ 83,939.93	$ 210,000.87

Note: Due to rounding of decimal places, the total factored taxes may not be **exactly** the total tax revenue initially desired. The difference should be minimal (ie. the difference here is 87 cents ($210,000.87 - $210,000.)).

Note: These calculations are based on the property class total assessments. When the mill rate factors are applied to individual properties, there may be a small difference in the total, factored taxes due to rounding of decimal places.

Property Tax Phase-in

(Section 330.2 RMA, Section 279.2 UMA)

Property tax phase-in sets a limit on property tax increases or decreases resulting from property revaluation. An assessed owner of property may receive a gradual property tax increase or decrease over a maximum of six years as a result of a phase-in plan.

Council may establish, by bylaw, a phase-in plan setting maximum amounts or percentages of tax increases or decreases for each year of the plan.

Phase-in of property taxes can only be applied to properties within four local property classes ***(Agricultural, Residential, Seasonal Residential and Commercial and Industrial)***. Council may choose to implement a phase-in plan that applies to one, a combination of or all local property classes. The plan may differ from one local property class to another.

The tax phase-in bylaw must specify how the municipality intends to fund the plan. The amount to be funded in each year of the plan is the difference between the revenue that would be realized under the plan and the tax revenue that would otherwise result from revaluation.

The plan must exclude those tax increases that result from any change in assessed values that is not the result of revaluation. This would include new valuations on new construction or additions to properties.

The full amount of any tax increase or decrease from revaluation is to be in effect after completion of the plan.

Other taxing authorities may use the municipality's tax phase-in plan, by entering into an agreement with the municipality. The other taxing authorities do not have the authority to establish a phase-in plan that is different from the municipality's; they may only use the plan as established by the municipality.

Funding for the lost tax revenue must include one or more of the following methods:

- lessening any tax decreases that result from revaluation;
- meeting the difference through a levy on land and/or improvements or classes of land and/or improvements; and/or
- transferring funds from surplus or reserve funds.

Note: When funding the phase-in plan by increasing the municipal uniform mill rate, the increase in taxes that result from the higher mill rate can not be phased-in.

The following steps are required to properly phase-in property taxes:

	Explanation	Formula
1	Calculate the mill rate required in the current year to raise the same amount of municipal tax as levied in the previous year.	*Previous year's municipal tax levy* = *phase-in mill rate** / *Current year taxable assessment* *$ 200,000* = *20 mills* / *10,000,000* **Note: When using mill rate factors, the "phase-in mill rate" figure becomes the revenue neutral mill rate. This mill rate is then multiplied by the mill rate factors to determine the phase-in mill rate for each local property class.* *revenue neutral mill rate x mill rate factors = phase-in mill rate (necessary only when mill rate factors are used)*
2	To determine the phase-in property tax, use the phase-in mill rate calculated in step 1 and calculate the municipal taxes for each property in the municipality *(using the current year taxable assessment for each property)*.	*phase-in mill rate x current year taxable assessment = phase-in property taxes* ***Property A: 20 mills x $ 100,000 = $ 2,000*** ***Property B: 20 mills x $ 150,000 = $ 3,000***
3	To determine the increase or decrease in taxes from the previous to the current year, subtract the previous year taxes from the phase-in taxes. The result is the phase-in amount.	*phase-in property taxes – previous year property taxes = phase-in amount* ***Property A: $ 2,000 - $ 800 = $ 1,200*** ***Property B: $ 3,000 - $ 1,500 = $ 1,500***
	Property taxes may be phased-in over a period of 2 to 6 years. Multiply the phase-in amount by the phase-in formula (1 divided by the number of years of phase-in) to determine the current year phase-in amount.	*phase-in amount x phase-in formula = current year phase-in amount* For a four-year phase-in period. ***Property A: $ 1,200 x 1/4 = $ 300*** ***Property B: $ 1,500 x 1/4 = $ 375***

continued

5	Add up all of the individual phase-in amounts to determine the total reduction in property tax revenue *(if any)* to the municipality. ***Note: The total reduction in tax revenue must be calculated for each year of the phase-in program. The reduction in tax revenue in each year will decline as the program is completed.***	*total phase-in – current year phase-in* *= reduction in tax levy for the current year* ***Property A: $ 1,200 - $ 300 = $ 900*** ***Property B: $ 1,500 - $ 375 = $ 1,125*** *$ 900 + $ 1,125 = $ 2,025 (total reduction in tax levy for the current year)*
6	Add the total reduction in the tax levy to the current year tax levy. Divide this amount by the current year taxable assessment to determine the uniform mill rate. ***After calculating the cost of the phase-in program, note that the mill rate has increased from 20 to 20.2025 mills. The property owner will experience an increase in taxes by the amount of the phase-in for the year plus any tax increases where council requires additional tax revenue to fund local services.***	*total phase-in amount* *+ current year tax levy* *= taxes required for current year* *$ 2,025 + $ 200,000 = $ 202,025* $\frac{\text{taxes required for current year}}{\text{current year taxable assessment}}$ = uniform mill rate $\frac{\$\ 202,025}{\$10,000,000}$ = 20.2025 mills

Example

Previous year property taxes = $ 1,500
Current year proposed property taxes = $ 2,400

Tax increase due to revaluation = $900

In this example, Council plans to phase-in taxes over a period of 4 years:

YEAR OF PHASE- IN	TAX INCREASE DUE TO REVALUATION	PHASE - IN AMOUNT	ASSESSED OWNER'S PROPERTY TAX	AMOUNT TO BE FUNDED BY MUNICIPALITY
1	$ 900	$ 225	$ 1,725	$ 675
2	675*	225	1,950	450
3	450*	225	2,175	225
4	225*	225	2,400	0

****In years 2, 3, and 4 of the phase-in plan, the "Tax increase due to revaluation" amount is the amount of the tax increase that remains to be phased-in at the beginning of that tax year.***

In the example, the phase-in bylaw must provide that in year 1 the lost tax revenue of $675. is funded in that year; in year 2, funding must be provided for $450. in lost tax revenue; in year 3, funding must be provided for $225. in lost tax revenue; and in year 4, no funding is required as the tax has been fully phased-in.

The amount to be funded in each year of the plan is the amount of taxes the municipality would lose as a result of phasing in tax increases.

Funding for the lost tax revenue must include one or more of the following methods:

- reducing tax decreases that result from revaluation;
- meeting the difference through a levy on land and/or improvements or classes of land and/or improvements; and
- transferring funds from surplus or reserve funds.

Taxation in Organized Hamlets

(Subsections 330.3(5.1), 339.2(6), 339.3(5))

Tax tools have been extended to include organized hamlets. Special programs or services requested in an organized hamlet may now be financed directly by that area, using the base tax, minimum tax or mill rate factor tax tools.

The Rural Municipality Act, 1989 states that at the **request of** or with the **consent of** the board of an organized hamlet, the rural municipal council may, by bylaw:

- provide for mill rate factors
- provide for a base tax
- provide for a minimum tax

that are different from the mill rate factors/base tax/minimum tax applied elsewhere in the municipality.

Open communication between an organized hamlet board and the rural municipal council will be important to determine the need and viability for setting a different mill rate factor, base tax or minimum tax within the organized hamlet. Although a formal process is not addressed in legislation, it is suggested that rural municipalities work closely with organized hamlets to facilitate a consultation process for this purpose.

Exemptions by Bylaw

- What happens if a municipality exempts a property from taxation?

When a municipality exempts any land or improvement from **taxation**, it is required to raise, on behalf of any other taxing authority (OTA), an amount equal to what would have been levied if the **exemption** had not taken place. This is done by the municipality adjusting the OTA's uniform mill rate within the municipality.

If the OTA agrees to the exemption, all the municipalities who levy on behalf of the OTA must also agree to the exemption if the loss created by the exemption is to be made up by adjusting the OTA's uniform mill rate throughout all the affected municipalities.

(Sections 331.1(1) RMA, 275.1 UMA)

Exemptions: Economic Development Purposes by Bylaw

- Are there any exceptions making up the other taxing authority's (OTA) lost revenue when exempting a property?

Yes. When a municipality exempts any land or improvement from taxation for **economic development purposes**, the municipality is **not** required to make up the lost revenue on behalf of the OTA. Such an exemption may last for up to five years, after which an extension may be agreed to by the OTA.

(Subsections 331.1(4)-(6) RMA, 275.1 (4)-(6) UMA)

Fixed Assessment Agreements

- When council enters into a **FIXED ASSESSMENT** agreement with any person, is the municipality required to make up the other taxing authority's (OTA) lost revenue?

No. The provisions of the agreement prevail and there is no adjustment made on behalf of the OTA.

(Sections 299 RMA, 239.1 UMA)

Mill Rate Factors and OTA's

- When, by agreement, **municipal mill rate factors** are to be applied to the other taxing authority's (OTA) mill rate, does the municipality use the uniform mill rate provided by the OTA?

No. The municipality must adjust the OTA's uniform mill rate so that the total amount of taxes levied are the same as *before* the mill rate factors were applied.

(Sections 330.3 RMA, 279.3 UMA)

Regional Parks

- What percentage does the municipality keep when collecting taxes on behalf of a regional park?

The municipality retains 20% of the amount of taxes collected on behalf of the regional park authority for administrative costs incurred by the municipality. The council and the regional park authority may, however, agree to a different amount.

(Section 339.1 RMA, Section 279.01 UMA)

Loss of Business Assessment/ Tax

- With the loss of business assessment/tax, how can council make up the lost revenue?

1) Council could choose to not make up the revenue (ie. raise same amount of taxes as previous year less the business tax levy).

2) Council could increase the uniform mill rate, to be applied across **all** properties, in order to raise an amount similar to the previous year's gross tax levies (business and property taxes).

3) Council could apply tax tools such as mill rate factors on commercial and industrial properties to raise an amount similar to the previous year's business tax revenue.

(Section 283 RMA, 240 UMA)

Tax Abatements

- When may council abate/cancel taxes?

Council may cancel the municipal portion of taxes at any time, for any reason. When council wishes to include the other taxing authority (OTA) portion, the following provisions apply:

(a) there has been a change in the land or improvements to the extent that the council considers it inappropriate to collect the whole or a part of the taxes;

(b) a lease, licence, permit or contract has expired or been terminated with respect to land or improvements that are exempt from taxation;

(c) in the council's opinion, the taxes owing are uncollectable;

(d) in the council's opinion, the taxes owing have become uncollectable due to unforseen hardship to the ratepayer; or

(e) the council and other taxing authority agree that the compromise or abatement is in the best interests of the community.

(Section 386 RMA, Section 285 UMA)

Organized Hamlets

- What percentage does the rural municipality keep when administering an organized hamlet and how is this impacted by tax tools?

An amount between 40% and 75% of the taxes collected may be allocated to the organized hamlet special account. This amount is to be determined by the council, in consultation with the hamlet board. Therefore, the rural municipality keeps 25% to 60% of the taxes collected.

Any amounts collected, whether based on a uniform mill rate or the use of tax tools, would be shared in accordance with the percentages agreed to by the council and organized hamlet board.

(Section 15 RMA)